

VZCZCXRO5706
RR RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHBK #2008/01 0950919
ZNR UUUUU ZZH
R 050919Z APR 07
FM AMEMBASSY BANGKOK
TO RUEHC/SECSTATE WASHDC 6075
INFO RUCNASE/ASEAN MEMBER COLLECTIVE

UNCLAS SECTION 01 OF 02 BANGKOK 002008

SIPDIS

SIPDIS

E.O. 12958: N/A

TAGS: [ECON](#) [TH](#)

SUBJECT: RETAILING IN THAILAND: WAITING FOR THE SHOE TO
DROP

¶1. SUMMARY: Thailand's latest effort to enact a Retail Law has been rejected by the Cabinet, sending the draft back for rewriting. Prominent in the debate over the retail law is the growing influence of large retailers in the Thai market and their impact on small retailers. With many calling for protection for traditional Thai retailers against what is considered foreign competition, the shape of the next draft law is hard to predict. End summary.

¶2. On March 27 a draft Retail and Wholesale Business Act was rejected by the RTG Cabinet and returned to the Ministry of Commerce for revision. According to press reports, Ministers objected that the draft law did not make zoning regulations for retail business expansion clear enough, and concentrated too much power in the new Retail and Wholesale Supervision Committee, which could become subject to political interference, and threatened to discourage investment.

¶3. Within the Thai retail market large retailers hold an increasingly prominent position. Major player include Tesco/Lotus, Carrefour, Makro, and Big-C. These four chains have 158 superstores in Thailand between them, and another 238 smaller stores. Outlets for these large retailers are scattered like popcorn throughout the Bangkok metropolitan area and are also widely represented in other urban areas around Thailand. The large selection offered by these stores and their low prices - resulting from large-scale purchasing, sometimes buying directly from producers, bypassing wholesalers - are increasingly putting pressure on Thailand's traditional small, mom-and-pop retailers. Some analysts feel that one of the principle objectives of the new Retail Law is to protect small retailers.

¶4. As a vehicle to protect small retailers the draft Retail Law would have introduced significant uncertainty for large retailers. The draft itself made no explicit reference to large or small retailers, and did not provide any definition for these categories. Under the draft law, opening a new retail outlet would have required approval from the central Retail and Wholesale Supervision Committee. Provincial committees would have the ability to make recommendations, but only the central committee would have the authority to grant permissions for all of Thailand. Significantly, the draft law did not clearly specify what criteria would be applied to determine the suitability of an application. The zoning regulations would themselves fall to the committee to determine.

¶5. Significantly, all the major retailers are foreign owned (although Thailand's Central Group holds 37% of Big-C). It is therefore perhaps not surprising that the debate has taken on nationalistic overtones. The rejection of the draft retail law was denounced by the president of the Confederation of Thais Opposing Foreign Retailers as a victory for foreign retailers.

¶6. Under present law, retail companies having a total

minimum capital of 100 million baht (\$2.9m) or greater, or having a minimum capital for each shop of 20 million baht (\$575k) or greater can be more than 50% owned by foreign owners. The draft amendments to the Foreign Business Act would eliminate the exemption on size, making all retailing subject to limitations on foreign ownership without obtaining permission from the RTG.

¶17. The decision to reject the draft retail law did find support from the Thai Retailers Association. The group's president expressed concern over the authority of the central regulator and noted that while the act enabled the government to limit the expansion of large stores, it did not provide any mechanism for directly strengthening traditional or family owned shops.

¶18. Dr. Charles Cheung, Chairman of the Competition Committee for the Board of Trade, has argued that small retailers cannot compete against the large-scale retailers, who hold all of the competitive advantages. Only by introducing some form of intervention can the small retailers be protected. Notably, Dr. Cheung also argues that the definition of large retailers should include formula chain stores, with 10 or more branches. Indeed, in Thailand the most powerful retailer may very well be 7-Eleven, with around 3,500 branches in every corner of the country (and owned by Thai conglomerate CP Group).

¶19. With the draft retail law returned to the Ministry of Commerce for rewriting, a new drafting committee is expected to be named. Some observers expect that the proposed 19 member committee will include more members favorable to small retailers.

¶10. Comment. Investors in Thai retail have dodged one bullet

BANGKOK 00002008 002 OF 002

with the rejection of the draft retail law. The law's powerful central supervision committee, with the authority to approve or reject proposed expansion, would have introduced an unwelcome uncertainty into any corporate business plan for Thailand. Nevertheless, even if the subjectivity of the process is lessened, it is not certain that a new version of the law will prove any more favorable to large retailers. As Dr. Cheung notes, in Thailand sometimes politics comes first, and at the present time there are strong currents pushing to limit the further growth of large retailers. For the moment much is in doubt; both the retail law and the amendments to the foreign business act are undergoing revision and it is not clear how the sector will be affected by the final results. Although no U.S. companies are currently active in Thailand's retail sector, if the final Retail Act and/or Foreign Business Act are passed as currently expected, it will be difficult for new foreign players to enter the Thai retail market.

ARVIZU